Canada Trustco Mortgage Company
Notice of 121st Annual Meeting of Shareholders
February 26, 1985
and Information Circular

NOTICE OF MEETING

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that the one hundred and twenty-first annual meeting of the shareholders of Canada Trustco Mortgage Company will be held in the Commonwealth Ballroom of the Holiday Inn - City Centre Tower at 300 King Street in London, Ontario, Canada on Tuesday, the twenty-sixth day of February, 1985 at 11:00 o'clock in the forenoon, for the purposes of:

1. receiving the annual report to shareholders (a copy of which is enclosed);
2. electing directors;
3. appointing auditors; and
4. transacting such other business as may properly be brought before the meeting.

Please read the enclosed information circular for complete details.

By order of the board

C. R. Clarke

C. R. Clarke, Q.C.
Vice-President – Secretary
February 8, 1985, London, Ontario

Shareholders who are unable to attend the meeting are requested to date, sign and return the enclosed form of proxy in the pre-addressed and postage-paid envelope.

SOLICITATION OF PROXIES

THIS INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY MANAGEMENT OF CANADA TRUSTCO MORTGAGE COMPANY (REFERRED TO AS THE "COMPANY") OF PROXIES TO BE USED AT THE ANNUAL MEETING OF SHAREHOLDERS OF THE COMPANY TO BE HELD ON THE 26TH DAY OF FEBRUARY, 1985 AT THE PLACE AND TIME AND FOR PURPOSES SET OUT IN THE NOTICE OF MEETING ACCOMPANYING THIS INFORMATION CIRCULAR. The solicitation of proxies will be primarily by mail and some might be solicited by regular employees at nominal cost which will be borne by the company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and officers of the company. A SHAREHOLDER MAY APPOINT SOME OTHER PERSON AS A REPRESENTATIVE AT THE MEETING BY DELETING THE NAMES AND ADDRESSES OF THE DESIGNATED PERSONS AND INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER PROPER FORM OF PROXY AND IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE SECRETARY OF THE COMPANY IN TIME FOR USE AT THE MEETING. A person appointed as a proxy must be a shareholder of the company. A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date, or (b) by signing written notice of revocation. To be effective, evidence of revocation must be received by the secretary of the company before any vote at the meeting has been cast pursuant to the authority conferred by such proxy.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote or withhold from voting the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. IF NO DIRECTION IS GIVEN, SUCH SHARES WILL BE VOTED FOR APPROVAL OF THE ANNUAL STATEMENT AND THE REPORT THEREON, ELECTION OF DIRECTORS, APPOINTMENT OF AUDITORS, ALL AS STATED IN THIS INFORMATION CIRCULAR, AND APPROVAL OF ALL ITEMS PROPERLY COMING BEFORE THE MEETING, INCLUDING AMENDMENTS OR VARIATIONS OF MATTERS SET OUT IN THE NOTICE OF MEETING. At the time of printing this information circular, management knows of no such amendments, variations or other matters to come before the meeting other than those referred to in the notice of meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As of January 28, 1985 the company had issued and outstanding a total of 21,949,971 common shares each with a par value of one dollar ($1.00) and, subject to the limitations summarized below and contained in the Loan Companies Act of Canada and in the Letters Patent of the Company issued thereunder, each such share is entitled to one vote.

The Manufacturers Life Insurance Company (ManuLife) beneficially owns 5,661,506 shares, being 25.79% of common shares issued.

Under provisions of the Canadian and British Insurance Companies Act, by which ManuLife is regulated, its maximum beneficial ownership of Canada Trustco's issued common shares is limited to 30%.

However, Canada Trustco's charter prohibits the registration of common shares if the total number held by a purchaser and associates would exceed 10% of common shares issued. The charter also limits the number of votes which may be cast by any shareholder and associates at a shareholders' meeting to 10% of common shares issued. In the opinion of legal counsel the charter provisions are valid and enforceable. ManuLife has indicated its awareness of these restrictions.

In addition, the Loan Companies Act of Canada provides that a non-resident shareholder which beneficially owns in excess of 10% of the common shares of a federally incorporated loan company may not vote the shares. As the policyholders of ManuLife having voting rights are entitled to elect its directors, and a majority of such policyholders may be non-residents, the question of whether ManuLife is technically a non-resident for purposes of the Loan Companies Act has arisen. ManuLife has stated that it is a resident of Canada. However, on the advice of counsel, the board has determined, under the terms of the Loan Companies Act,

that the shares held by ManuLife should not be voted until the technical question ofManuLife's status for the purposes of the Loan Companies Act is clarified.

To the knowledge of the directors and officers of Canada Trustco Mortgage Company no other person or company beneficially owns or exercises control or direction over common shares carrying more than 10% of the votes attached to such common shares of the company. However, a number of common shares are held in nominee names.

No record date having been fixed by the directors for determining the holders of shares who may vote at the meeting, all persons who are registered common shareholders at the close of business on the business day immediately preceding the meeting will, subject to the limitations mentioned above, be entitled to vote.

ELECTION OF DIRECTORS

The by-laws of the company provide for its affairs to be managed by a board to be elected annually consisting of not less than fifteen nor more than thirty directors as determined by the board. The board passed a resolution on January 8, 1985, which determines the size of the board will be 29, being within the limits set by the by-law. IN THE ABSENCE OF CONTRARY INSTRUCTIONS THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY INTEND TO VOTE FOR THE NOMINEES WHOSE NAMES ARE SET FORTH on Pages 3, 4, 5 and 6. All of the persons named with the exception of Paul J. Hill and John W. Pitts are presently directors of the Company, Bernard I. Ghert having been appointed a director of the board on September 25, 1984 upon the resignation of Carl O. Nickle.

It is not contemplated that any of the nominees will be unable to serve as a director, but if between the date of this information circular and the date of the annual general meeting of shareholders it is determined that any of the nominees is unable to serve as a director, the persons named in the form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next annual general meeting of shareholders and until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the by-laws.

Set forth on pages 3, 4, 5 and 6 are the names of all persons proposed to be nominated for election as directors, all other positions and offices with the company now held, their principal occupations or employments, the year in which they became directors, the approximate number of equity shares of the company and its subsidiary, The Canada Trust Company, beneficially owned, directly or indirectly, or over which control is exercised by each of them as at February 8th, 1985 and a summary of the record of attendance by directors at board and committee meetings during 1984.

	Director of Canada Trustco (Canada Trust) Since	Shares Owned	
		Canada Trustco Common	Canada Trust 2nd Preference
J. W. Adams, London, Ontario, Chairman, Emco Limited, a diversified manufacturer and distributor of plumbing and petroleum equipment.	1982 (1981)	1,508	5
A. E. Barron, Toronto, Ontario, Vice-Chairman, Canadian General Investments Limited	1963 (1961)	7,000	5
Mrs. Sonja I. Bata, Don Mills, Ontario, Director, Bata Limited, headquarters of the Bata shoe organization worldwide operations.	1983 (1983)	3,100	5

R. P. Bratty, Toronto, Ontario, Partner, Gambin Bratty, Barristers and Solicitors, a general legal practice.	1982 (1977)	900	5
John B. Cronyn, London, Ontario, Corporate Director and Consultant	1972 (1978)	562	5
F. W. Dakin, Hamilton, Ontario, President and Chief Executive Officer, The G.W. Robinson Company Limited, department stores.	1977 (1975)	500	5
George H. Dobbie, Cambridge, Ontario, Chairman, Glenelg Textiles Limited, a yarn manufacturer.	1982 (1950)	7,200	5
Eric F. Findlay, Toronto, Ontario, Chairman and Chief Executive Officer, Silcorp Limited, retail convenience and ice cream stores.	1982 (1977)	500	5
R. W. Gardhouse, Milton, Ontario, Corporate Director.	1982 (1978)	1,766	5
Bernard I. Ghert, Toronto, Ontario, President and Chief Executive Officer The Cadillac Fairview Corporation Limited, a company engaged in real estate development and management. Mr. Ghert has been a senior executive of this company for more than 5 years.	1984 (1984)	500	5
D. Michael M. Goldie, Vancouver, B. C., Partner, Russell & DuMoulin, Barristers and Solicitors, a general legal practice.	1984 (1984)	500	5
William D. Grace, Edmonton, Alberta, Senior Vice-President, Finance and Director, Canadian Utilities Limited, an electric and natural gas utility.	1982 (1982)	687	5
W. Howard Hemphill, Stratford, Ontario, Chairman, Krug Furniture Inc., a furniture manufacturing company.	1982 (1966)	3,200	5
J. T. Hill, Kitchener, Ontario, President and General Manager, Economical Mutual Insurance Company, a general insurance company.	1982 (1982)	1,000	5
Paul J. Hill, Regina, Saskatchewan President, McCallum Hill Ltd., a company engaged in real esate, insurance, communications and oil and gas. Mr. Hill has held this position for more than five years.	—	500	5

Mrs. Beryl M. Ivey, London, Ontario, Vice-President, The Richard Ivey Foundation, a charitable foundation.	1982 (1981)	10,000	5
E. S. Jackson, Toronto, Ontario, President, The Manufacturers Life Insurance Company, a life insurance company	1983 (1983)	533	5
Mervyn L. Lahn, London, Ontario, President and Chief Executive Officer of the company and The Canada Trust Company.	1978 (1978)	3,869	5
Tom Lawson, London, Ontario, Honorary Chairman, Lawson & Jones Limited, a printing and lithographing company.	1957 (1956)	33,274	5
F. T. Metcalf, Puslinch, Ontario, Chairman, Maclean Hunter Cable TV, a division of Maclean Hunter Limited, a communications company.	1982 (1980)	3,000	5
A. H. Mingay, Toronto, Ontario, Chairman of the Board and the Executive Committee of the company and The Canada Trust Company.	1964 (1967)	2,000	5
K. G. Murray, Kitchener, Ontario, President, J.M. Schneider Inc., a meat processing company.	1982 (1976)	754	5
John H. Panabaker, Kitchener, Ontario, Chairman of the Board The Mutual Life Assurance Company of Canada, a life insurance company.	1979 (1979)	1,219	5
D. H. Parkinson, Vancouver, B.C., Senior Vice-President and Chief Financial Officer, Westcoast Transmission Company Limited, a natural gas pipeline company.	1982 (1980)	500	5
John W. Pitts, Vancouver, B.C., President and Chief Executive Officer MacDonald Dettwiler and Associates Ltd., a high technology engineering and manufacturing firm. Prior to February, 1982, Mr. Pitts was Chairman and President of Okanagan Helicopters Ltd. for more than five years.	—	500	5
W. John Stenason, Calgary, Alberta, Corporate Director and Consultant.	1980 (1972)	2,000	5

R. W. Stevens, Toronto, Ontario, Partner, Blake Cassels & Graydon, Barristers and Solicitors, a general legal practice.	1982 (1970)	2,250	5
J. D. Stevenson, Toronto, Ontario, Partner, Smith Lyons Torrance Stevenson & Mayer, Barristers and Solicitors, a general legal practice.	1982 (1971)	1,200	5
Peter G. White, London, Ontario, President and Chief Executive Officer, The Blackburn Group Inc., a company holding investments in the information and entertainment industries.	1984 (1984)	500	5

The by-laws of the company provide that the directors may elect from their members an executive committee. As of the date of this circular the members of such committee are: A.H. Mingay (Chairman), J.W. Adams, R.P. Bratty, J.B. Cronyn, F.W. Dakin, E.S. Jackson, M.L. Lahn, J.H. Panabaker and W.J. Stenason. In addition there is an audit committee appointed by the directors consisting of J.W. Adams (Chairman), A.E. Barron, R.P. Bratty, F.W. Dakin, R.W. Gardhouse, J.T. Hill and E.S. Jackson and a compensation/human resources committee consisting of F.T. Metcalf (Chairman), J.B. Cronyn, W.D. Grace, J.H. Panabaker, W.J. Stenason, R.W. Stevens and J.D. Stevenson.

DIRECTORS' ATTENDANCE 1984

	TOTAL BOARD MEETINGS	NUMBER ATTENDED	TOTAL EXECUTIVE COMMITTEE MEETINGS	NUMBER ATTENDED
ADAMS, J.W.	9	9	12	8
BARRON, A.E.	9	6	2	1
BATA, SONJA I.	9	7		
BRATTY, R.P.	9	9	10	8
CRONYN, J.B.	9	9	12	12
DAKIN, F.W.	9	9	12	9
DOBBIE, G.H.	9	9		
FINDLAY, E.F.	9	6		
GARDHOUSE, R.W.	9	9		
GHERT, B.I.	2	2		
GOLDIE, D.M.	7	6		
GRACE, W.D.	9	5		
HEMPHILL, W.H.	9	6		
HILL, J.T.	9	8		
IVEY, BERYL M.	9	8		
JACKSON, E.S.	9	6	12	10
LAHN, M.L.	9	8	12	11
LAWSON, TOM	9	7	2	1
METCALF, F.T.	9	9		
MINGAY, A.H.	9	9	12	12
MURRAY, K.G.	9	6		
PANABAKER, J.H.	9	9	12	8
PARKINSON, D.H.	9	4		
STENASON, W.J.	9	9	12	12
STEVENS, R.W.	9	8		
STEVENSON, J.D.	9	7		
WHITE, P.G.	7	6		

DIRECTORS' AND OFFICERS' REMUNERATION

During the year ended December 31, 1984 the aggregate remuneration paid or payable by the company and The Canada Trust Company and estimated aggregate cost to the company and The Canada Trust Company of all pension benefits proposed to be paid under the pension plan upon retirement at normal retirement age to the following groups was as set out below:

	NATURE OF REMUNERATION	
	From office, employment and employer contributions (aggregate)	Cost of pension benefits (aggregate)
(i) DIRECTORS (TOTAL NUMBER: 27)		
(a) From company and wholly-owned subsidiaries	$ 291,800	—
(b) From partially-owned subsidiaries	—	—
TOTAL	$ 291,800	—
(ii) FIVE SENIOR OFFICERS		
(a) From company and wholly-owned subsidiaries	$1,209,367	$362,347
(b) From partially-owned subsidiaries	—	—
TOTAL	$1,209,367	$362,347
(iii) OFFICERS WITH REMUNERATION OVER $50,000 (TOTAL NUMBER: 31)		
(a) From company and wholly-owned subsidiaries	$3,861,579	$557,726
(b) From partially-owned subsidiaries	—	—
TOTAL	$3,861,579	$557,726

STOCK OPTIONS

Pursuant to the Canada Trustco Mortgage Company stock option plan the company granted certain options to its officers in 1984 to purchase common shares. These are exercisable for 10 years. The options granted in February 1984 become eligible for exercise at the rate of 10% in each year measured from the date of granting and those granted in September 1984 become eligible for exercise at the rate of 10% in the first year and 15% each year thereafter. Details of options granted in 1984 are as follows:

Options Granted

Date	No. of Shares	Option Price per Share	Price Range * High	Price Range * Low
Feb. 20, 1984	72,000	$22.875	$25.00	$22.875
Sept. 25, 1984	249,900	25.375	27.125	25.00

During the year 1984 some of the options to purchase common shares which were granted in 1982 and 1983 were exercised as follows:

Options Exercised

Date	No. of Shares	Option Price per Share	Price Range * High	Price Range * Low
Jan. 17	4,000	$12.555	25.00	22.625
Feb. 27	3,200	12.555	24.25	22.25
	620	15.65	24.25	22.25
Mar. 7	1,140	12.555	24.00	22.25
	680	15.65	24.00	22.25
Jul. 12	240	12.555	22.75	19.25
	380	15.65	22.75	19.25
	320	20.215	22.75	19.25
Aug. 14	10,000	12.555	26.75	22.00
Sep. 5	500	12.555	27.75	23.50
Oct. 2	3,700	12.555	27.125	25.00
Oct. 4	1,300	12.555	27.125	25.00
Oct. 23	1,000	12.555	28.25	25.25
Nov. 23	1,400	15.65	29.00	26.50

* Price range for common shares on The Toronto Stock Exchange in the 30 day period prededing the date options granted or exercised.

NOTICE OF CHANGE OF AUDITORS

TAKE NOTICE THAT THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY INTEND TO VOTE IN THE ABSENCE OF CONTRARY INSTRUCTIONS FOR THE APPOINTMENT OF PRICE WATERHOUSE, CHARTERED ACCOUNTANTS, LONDON, ONTARIO AS AUDITORS OF THE COMPANY TO HOLD OFFICE UNTIL THE NEXT ANNUAL GENERAL MEETING OF SHAREHOLDRS AND TO AUTHORIZE THE DIRECTORS TO SET THEIR REMUNERATION. If appointed, Price Waterhouse will replace Thorne Riddell whose term of office will expire at the close of the meeting.

The board of directors of the company, on the recommendation of the audit committee, are recommending the appointment of Price Waterhouse as auditors of the company effective on the date of the meeting. There have been no reportable disagreements with Thorne Riddell related to any manner of audit scope or procedure or any matter of accounting principles or practices or financial statement disclosure or any question with respect to their opinion on the annual financial statements of the company or with respect to their comments on any interim financial information. Annexed hereto as Schedule A is a letter from Thorne Riddell advising that they have reviewed and are in agreement with the information contained herein.

By Order of the Board

C.R. Clarke

C.R. Clarke, Q.C.
Vice-President – Secretary
February 8, 1985, London, Ontario

FINANCIAL STATEMENTS

Enclosed with this information circular is the Canada Trustco Annual Report 1984, being the statement of affairs of the company.

As required by Section 52(2) of the Loan Companies Act, R.S.C. 1970 c.170 as amended, we hereby certify that to the best of our knowledge and belief the statement is correct and shows truly and clearly the financial condition of the company's affairs.

Arthur H. Mingay, Chairman

Mervyn L. Lahn, President

John W. Adams, Chairman, Audit Committee
February 8, 1985, London, Ontario

SCHEDULE A

THORNE
RIDDELL
Chartered Accountants

February 1, 1985

Ontario Securities Commission,
Suite 1800,
20 Queen Street West,
P. O. Box 55,
Toronto, Ontario.
M5H 3S8

Dear Sirs:

We have read the Notice of Change of Auditors which Canada Trustco Mortgage Company proposes to publish in the Information Circular accompanying the notice of its next annual meeting and are in agreement with the information contained therein.

Yours very truly,

Thorne Riddell

PAA:nw

220 Dundas Street, London, Ontario, N6A 1H3 / 519/672-8970
International firm KMG Klynveld Main Goerdeler

Canada Trust

Remarks by
Executive Management
at the Canada Trustco Annual General Meeting of Shareholders
February 26, 1985

M. L. Lahn
President and Chief Executive Officer

J. H. Speake
Executive Vice-President — Client and Corporate Services

J. D. Richardson
Executive Vice-President — Regional Operations

P. C. Maurice
Executive Vice-President — Finance and Investment Services

Canada Trust

M. L. Lahn
President and Chief Executive Officer

Despite George Orwell, 1984 was an excellent year, measured by either financial results or stock market performance, for Canada Trustco and its shareholders.

Net earnings reached an unprecedented $74 million and the portion attributed to common shares increased 22% over 1983. At $2.81 per common share on a fully diluted basis, after-tax return on averaged common equity was 17% for 1984, well above the five year average objective of 15%. For the last five years, however, this return was 14½% and thus below target, but the goal should be achieved this year.

Assets under administration increased by 20% to $25 billion. Corporate assets increased by 15% to $12 billion. After-tax return of 68¢ per $100 of averaged corporate assets for 1984 surpassed the five year average objective of 65¢ but for the last five years fell short at 52¢ per $100.

Common shareholders who held their shares throughout the entire year achieved a pre-tax return of 43% including both dividends received and capital appreciation. 1984 was an extraordinary year in the latter respect and one which is not likely to be duplicated very often.

The objective to contain the percentage increase in operating expenses within the 15% growth in corporate assets was narrowly achieved. Operating expense escalation at 14% year over year is not a percentage of which management can be proud and continuing, concerted efforts are being made to ameliorate the rate of increase. Further comment on this challenge will follow in a few minutes.

The accomplishments of 1984 are fully documented in the annual report and the executive vice-presidents have commented on some of the highlights.

The positive results are attributable to the many abilities and successful efforts of 7,500 full and part-time employees. Shareholders undoubtedly join directors in extending congratulations and appreciation to staff across the country for their vital contributions throughout 1984.

As with most any company, there were several operating areas of concern which are worthy of brief review.

The greatest single problem continued to be loss experience as a result of the faltering, fragile economy of Alberta and the attendant collapse in real estate values.

As the text of the annual report discloses, investment losses and non-performing investments would have been negligible were it not for the situation in Alberta. Over 87% of investment losses were incurred in that province and approximately 75% of non-performing investments are situated there. We have been both assiduous and realistic in writing off, or writing down to realizable value, non-accruing loans and real estate acquired in settlement of loans. Great care has been taken to identify all possible problems and immediately take write-downs notwithstanding that, in some cases, an actual loss may never occur.

Recently, Peter Maurice and I conducted an on-site review and inspection of current and possible problem real estate loans and foreclosed properties in Edmonton and Calgary with regional and branch management. Calgary resident director John Stenason accompanied us on the review and inspection there. We are well satisfied that appropriate provision for risk of loss in Alberta was made by 1984 charges to the allowance for possible investment losses.

However, in line with the corporate posture to be extremely conservative in the carrying values ascribed to non-performing loans and real estate acquired in settlement of loans, an additional write-down of $1 million will be taken in the first quarter. This will ensure that the properties involved are recorded at forced sale values rather than appraised market values, the latter being the probable sale prices at which transactions should take place between knowledgeable and willing buyers and sellers.

Should Alberta's real estate values stabilize at current levels, additional losses of any consequence are not in prospect. Some recovery of previous write-downs could well be experienced. On the other hand, should the economy and real estate values deteriorate further, additional losses and write-downs may be incurred. They would not likely be of the magnitude experienced in 1984, but should they be, we are more than well prepared to meet them.

In the fourth quarter provision for possible investment losses charged to earnings was doubled to $5 million from the previous 1984 quarterly rate of $2½ million. This was done to ensure that ample provision exists should any presently unforeseen problems arise in our Alberta loans portfolio.

Virtually every lender which has been active in the province over the past five years has experienced losses. From information available in published reports it appears, on a relative basis, Canada Trustco's experience has been much less severe than that of most other lenders. To put the matter in perspective, 1984 Alberta loan loss experience was under 1% of average loans in the province, being in line with, or below, the percentage major chartered banks incurred on their total domestic loans.

A review of appraisal procedures showed that market values ascribed to Alberta properties on the dates the respective loans were made were accurate and realizable. Losses incurred have been due to the diminution in almost all property values, the severity of which few anticipated, together with inability to pursue personal covenants in the vast majority of residential foreclosures.

Later this year Arthur Mingay and John Richardson will be doing a follow-up on-site review with local management of then current and possible Alberta problem loans of consequence. Shareholders can be assured that executive management attention augments that of senior regional and branch management in this or in any other material problem situation.

My senior associates and I state, without equivocation, that Canada Trustco employs no "whistling in the graveyard" accounting techniques as have, and do, some in the financial services industry. Independent, expert advisors in financial matters would, we are certain, express the opinion, indeed the conviction, that Canada Trustco provides the fullest financial disclosure and presents its position in as conservative, if not the most conservative, manner of any Canadian deposit-taking institution.

The 1984 objective to achieve a 9% or greater return on real estate investment properties in wholly-owned Truscan Realty Limited was not achieved. Performance was 6.2%. As in 1983, sales of residential lots from the land development inventory were minimal. Almost all of these lands, unfortunately, are situated in Calgary, Alberta and Kamloops, British Columbia. Little housing is presently being constructed in either location and write-downs of $2 million and $1 million respectively were deemed prudent and charged to earnings in 1984. Modest, if any, income from these two investments is expected for many years and similar write-downs will be taken in 1985 even if external appraisals indicate no further impairment in realizable value.

Each year owned land and buildings are either independently appraised, or existing such appraisals are updated. At September 30, 1984 investment properties at appraised values exceeded carrying values by $55 million and the like figure for premises was $10 million. The estimated total appraisal increment of $65 million was up $5 million from 1983.

In almost all aspects except land development, Truscan had a good year highlighted by completion of negotiations and announcement of planned construction of the Canada Trust Tower which will be a landmark in downtown Toronto. Upon finalization of detailed planning, shareholders will be provided with complete information through our regular reports. Questions, if any, on this major development will be welcomed later in the meeting.

Truscan headed by John Schucht, Vice-President, Property Investments, is responsible for the design, construction, management and maintenance of all company-occupied premises, whether owned or leased. Shareholders undoubtedly agree that Canada Trust premises are second to none in virtually every important respect. We commend and thank Truscan employees for this important contribution to overall progress.

Turning to the real estate sales division, results in total continued unsatisfactory. Losses sustained in Pacific and Prairie regions eliminated earnings from Ontario regions.

In final quarter 1984, senior management of the division was changed, Pacific region sales operations discontinued and a rationalization of Prairie region activities begun and is now well advanced. Under the leadership of Gene Baillargeon, Vice-President, Real Estate Sales, the restructured division will likely approach $1 million of pre-tax earnings this year. Cautious expansion of the service in major Ontario cities in which we are presently under-represented will be undertaken later in the year, based on market research currently underway.

Earlier, reference was made to the unacceptably high increase in rate of growth in operating expenses and the difficulty management is experiencing in their containment. Salaries and benefits comprise about 55% of operating expenses. While our people are remunerated competitively with other leading organizations, extensive salary surveys clearly indicate that they are not overpaid. Consequently, control of personnel expenses must come through improved productivity, not only from increased automation, but by people doing tasks smarter and better. Various initiatives to this end are being escalated.

Staff additions are due to both rapid growth in business from established locations and expansion of our network of financial services branches. In 1983 eight were opened; in 1984 - 11; and 12 are planned for 1985 to bring the complement to 220.

In recent years major chartered banks have been shrinking their branch complement as the evolving electronic funds transfer age takes hold. Their posture makes eminently good sense because, in total, the country is over-branched by chartered banks.

Canada Trustco's position is quite different. We are under-branched in many parts of the country. Additional geographical distribution points are necessary to conduct all manner of transactions which will likely require face-to-face involvement long into the future. Equally important, a substantially greater number of accounts and transactions is necessary to lower unit costs, not only for product development and front end systems, but also for operational electronic activities.

A recent management estimate indicates that, apart from Quebec, we require an additional 100 branches to be properly represented across Canada. Failure to continue investment spending to lower future unit costs through increased volumes and market share would have an adverse impact on long term viability notwithstanding tempting short term savings.

This year salary costs are estimated to increase 11%. Additions to staff to service anticipated additional business volumes and open new branches are calculated to increase employee expenses by 4%. Salary increases for 1985 averaged 7%, somewhat higher than anticipated community averages and well above the expected increase in cost of living. Directors and senior management believe employees have well earned this preferential treatment after two years of wage restraint in support of government anti-inflation initiatives.

Management and staff are committed to increase business volumes and net earnings by a growth rate at least comparable to the increase in salary and benefit costs.

Occupancy costs constitute the second largest component of operating expenses. The rate of increase therein reflects our aggressive branch expansion strategy and escalation in operating costs of all types from municipal taxes to maintenance. Substantial expense was incurred last year due to many minor and several major branch renovations in 42 locations to extend the JohnnyCash money machine network. Units in place now number 80 in 53 branches. In 1985, significant premises costs will also be associated with installation of an additional 50 or more JohnnyCash automated banking machines. By the end of 1985 the ratio of machines to branches will be about 3 to 5 — undoubtedly amongst the highest for savings institutions in Canada. Notwithstanding these special one-time costs, initiatives underway should see the rate of increase in occupancy expenses slow this year.

Computer, furniture and equipment costs represent the third largest operating expenditure. Given our strategy to be a leader in use of technology — to provide better customer service and to allow us to bring innovative products to the marketplace — little respite is on the immediate horizon in this area. However, all additional thrusts are cost justified although salary and other savings usually are achieved only after a time lag.

Other expenditure components are carefully scrutinized as to necessity and reasonableness. We expect to improve performance this year by cutting out any fat which remains through tough-minded management. However, many major costs such as deposit insurance, provincial taxes on capital, utility and postage rates, etc. are beyond the control of management.

As shareholders are well aware, we pride ourselves in the quality and thoroughness of our financial reporting. The company was honoured, for the sixth consecutive year, by having its 1983 annual report chosen by The Financial Post panel of independent experts as the best in the financial industry, which includes banks, insurance companies, trust and loan companies, credit unions and others. Additionally,

the report was adjudged the second best amongst all Canadian corporations — Imperial Oil receiving first place.

This year, commencing with the month of April, we plan to issue monthly reports to shareholders for a trial period. In October we will conduct a survey to ascertain whether or not monthly reporting is beneficial to you. If the response is highly positive, we will declare the experiment a success and continue monthly reporting. If shareholders perceive no value added, we will revert to quarterly reporting in 1986. We hope you will respond to our questionnaire this fall.

During 1984 considerable media attention was given to labour relations at Canada Trust, primarily occasioned by a strike at our Cambridge Preston branch. There are two branches which have been organized by Local 304 of the Brewery Workers: Pen Centre branch in St. Catharines, and the Cambridge Preston branch.

In February of 1984, the union recommended that Pen Centre employees reject the company's last offer and confront us with a strike. The employees voted to accept the company's offer, and the second collective agreement was signed. That agreement contained conditions of employment identical to those then standard elsewhere within the company.

At Cambridge Preston, negotiations for a first collective agreement will continue pending the outcome of a decision by the Ontario Labour Relations Board on the status of Local 304. The local union is disputing its takeover by a trustee of the national union. The union has been conducting a strike since March 22, 1984. However, the branch has operated continuously and business has never been better. All employees with the exception of four have returned to work. In October of 1984, the Ontario Labour Relations Board dismissed a complaint by the union that the company had not bargained in good faith, upholding our position that we have no obligation to give unionized employees anything more than we provide to other personnel. Both of the bargaining units in the branch have applied for decertification in order to return to a personal relationship with the company and, if the applications are successful, the role of the union will be eliminated.

We have placed special emphasis on upgrading and reinforcing employee communications programs, through which employee concerns and opinions can be conveyed and addressed. We are committed to being a responsive and responsible employer, providing compensation, benefits, working conditions and opportunities for advancement comparable to other leading Canadian financial organizations.

Comment on the ownership question respecting federally incorporated loan and trust companies is appropriate. The company's long-standing posture, as determined and regularly reconfirmed by its non-management directors, is well known. It strongly favours independence of Canada's major deposit-taking institutions from the dominance of one or a few shareholders, each holding in excess of 10% of outstanding votes. The new federal government will surely announce its intentions sometime this year. The issue has become almost a purely political one due to the sad fact that all major Canadian trust and loan companies, apart from Canada Trustco and bank subsidiary loan companies, are now controlled, directly or indirectly, by dominant shareholders — Canada Permanent, Royal Trust and National Trust having fallen over the last few years.

With an election years away, a political decision might be swayed by the views of influential party backers and fund-raisers rather than by sheer logic, common sense and widespread informed opinion such as that of the Consumers' Association of Canada and other respected public groups which favour ownership restrictions. Several of the "trust company owners" fall into the category of influential Conservative party backers and fund-raisers. It would thus be naive to expect an ownership restriction to be forthcoming even with generous grandfathering provisions. Should the status quo prove to be the case, Canada Trustco remains a "sitting duck" as it clearly is at the moment.

The second best position to independence for Canada Trustco shareholders, customers and employees would be control by a large, responsible Canadian owned and controlled company, itself with widespread ownership and no dominant shareholder owning or controlling in excess of 10% of shares or votes outstanding.

With the increasing and disturbing trend in recent years towards concentrated ownership of large Canadian companies, fewer and fewer acceptable suitors exist, but there are some including two or three which would be eminently suitable. Hopefully, if an unwanted and undesirable acquisitor makes a proposal,

an integrous, independent, compatible and wealthy "white knight" will immediately appear on the horizon, either fortuitously or by board invitation.

There was heavy trading of Canada Trustco common shares and warrants to purchase common shares throughout 1984. This activity coupled with rising prices fuelled many take-over rumours, some of which still circulate. I can only repeat what was said at last year's annual meeting. "To the best of my knowledge there has never been any substance to any take-over rumours. Nor are any acquisitors lurking in the shadows, again to the best of my knowledge. However, I readily postulate that I might be the last to know of any such developments."

If the federal government opts, as we judge it will, for no ownership restriction, there is one change which we believe should be made to Canada Deposit Insurance legislation. No deposit gathering institution with individual, direct or indirect ownership of over 10% should be allowed to have its deposits covered by federal deposit insurance. If "individual trust company owners" really deem themselves beneficial to the economy, they should stand tall and let the public decide if it wishes to have deposits on an uninsured basis with institutions controlled by one or a few individual owners.

Had such a law been in effect over the last ten years Canada Deposit Insurance Corporation losses would likely have been minimal. We don't believe that the Astras, Greymacs, Seaways, Fidelities, etc. could have put their hands on very much "other people's money" without the umbrella of federal deposit insurance.

Finally, I quote the last paragraph of the 1984 annual report:

"Canada Trustco is well prepared to meet almost any eventuality. Despite a competitive environment not equalled for decades, the company should experience a good year in 1985 with net earnings anticipated to improve by at least 10%."

J. H. Speake
Executive Vice-President — Client and Corporate Services

Today, I'd like to focus my remarks around 1984 accomplishments in a very important aspect of marketing — innovation. We plan to be different at Canada Trust. To encourage innovation. Lacking a branch network the size of our major competitors — the banks — we counter by giving people reasons to seek us out, to walk past the competition.

Yes, there is a definite difference at Canada Trust!

Our number one corporate strategy is to be highly responsive to the marketplace.

We're continually evaluating the relationship between Canada Trust and the economy, competition, technology and consumers. You'll find us in the marketplace testing, listening, probing. We then turn this knowledge into ACTION — action that's at the leading edge of meeting consumer needs and wants. The Canada Trust track record in new ideas is second to none. We like to do things. Preferably first!

There's a definite difference at Canada Trust!

To illustrate, let's look at some of the innovative ideas introduced over the past year. Of course, the big new product was SUPERRATE — the account that turned the banking community upside down now has a portfolio of over a billion and a half dollars, considerably larger than any other savings or chequing product in our history. And, to make it even more amazing, this has happened in less than a year! The Canada Trust market share of personal savings deposits has been marching ahead in recent years and SuperRate keeps the momentum going! Our total savings, chequing and term deposits are inching ever closer to the fifth largest bank in Canada, and we're doing it from a much smaller branch network!

An interesting new idea introduced with the SuperRate account was paying a "trade-in allowance". Consumers who transferred a bank account with a balance over $3,000 from another financial institution to a Canada Trust SuperRate account, received $25 cash.

Following hot on the heels of the Canadian SuperRate account was the highly successful U.S. dollar SuperRate.

And then, in December, a decision was taken to extend the SuperRate structure to all personal trust accounts on March 31st, 1985. No other major trust company presently offers such an attractive rate on cash-on-hand in personal trust accounts.

Truly, there's a definite difference at Canada Trust!

Another first in '84 was the introduction of the Gold MasterCard. This premium credit card offers several special features including a higher than normal line of credit. At the time no other financial institution in Canada offered a premium MasterCard or Visa card.

Yet another Canadian first was the U.S. dollar MasterCard, a perfect companion for the U.S. dollar SuperRate account.

And, as many of you know, we weren't sitting by quietly as the mortgage business turned into a dog fight. Canada Trust was the first major national financial institution to offer weekly, bi-weekly and semi-monthly pay mortgages. Consumer response was tremendous. Over 30% of our renewals and new mortgage customers chose these new payment options. Introduced at the same time were two other faster paydown features; the first giving mortgageholders an opportunity to increase regular payments once a year by up to 15% at no extra cost; the second allowing lump sum payments up to 15% of the original principal each year without penalty.

Yes, there is a definite difference at Canada Trust!

Of course, new products are only one form of innovation. New ideas for product features and marketing implementation are also important.

For example, when money machines were introduced in late '83, the banks had had electronic banking machines for over a decade. We successfully overcame this disadvantage with a unique marketing program

that included naming our money machines JohnnyCash. After only three months recognition of Canada Trust JohnnyCash money machines was higher than competitive names.

Another new idea that's receiving very positive consumer reaction at new branches is a door-to-door handshaking campaign. Management staff devote two weeks to personally saying "hi" to their new neighbours. Now, what other financial institution would do that!

Two other new approaches that met with tremendous consumer response were the "Win a Home in Florida" and "Monthly Mortgage Burning" promotions. The Florida Home contest gave savings and chequing customers an opportunity to win a beautiful home in a Canadian-developed vacation community south of Tampa.

The Monthly Mortgage Burning gave those who took out a new or renewed an existing Canada Trust mortgage in each of three months an opportunity to see their mortgage go up in flames.

In two other new wrinkles for the Canadian marketplace, Canada Trust was named Canadian representative for JCB, Japan's largest credit card. We were also the first financial institution to reach an agreement with Hudson's Bay to integrate our JohnnyCash card into their planned money machine network. Incidentally, linking up with The Bay is just the beginning of efforts to put customers' money at their fingertips, through sharing electronic networks, in and outside Canada. The skills we've developed in computer technology over the years clearly puts us in an ideal position to capitalize on the electronic evolution. An excellent example of our computer capability is evident in objective eight in the 1984 Annual Report. For the third consecutive year our computer network availability to customers exceeded 99%. I'm sure you'll agree that's truly a fantastic record.

Yes, there is a definite difference at Canada Trust!

And, of course, I'd be remiss if somewhere in this speech I didn't mention 8 to 8 service. A few short years ago we took an old idea — extended hours — and turned it into one of the most successful banking concepts of all time. A little over a year ago 8 to 8 was moved into the metropolitan Toronto market. It's now proving once again that 8 to 8 is really great — for consumers and for Canada Trust!

There is now, and there was then, a definite difference at Canada Trust!

Innovation also comes in the way we service our customers, and recent applications of new technologies played an important role in '84. JohnnyCash 24 hour access to your money is one example. Other examples include . . . computer printing of investment certificates at the time of purchase . . . electronic printing techniques that give personal trust clients more customized statements . . . and on-site computer terminals for corporate clients to monitor daily transaction activity of their pension funds.

"Where do all the ideas come from?" The answer is simple — from the minds of motivated employees. The environment at Canada Trust is conducive to innovation. For example, we believe the personal computer is a tool to aid innovation. To help our people become computer literate and fully exploit what may someday be the centrepiece of homebanking, some 250 senior employees have been provided with a company computer at home . . . positive results are already evident.

There is a definite difference at Canada Trust!

Truly 1984 was abundantly successful for Canada Trust — in many ways, probably the best ever. Thousands of new customers will be an important part of our future . . . and significant to this success was a desire to do things differently. To innovate. To give people good reason to choose us over the competition. For at Canada Trust, there is a definite difference!!!

Thank you for listening.

J. D. Richardson
Executive Vice-President — Regional Operations

A very successful pastor once told me that every good sermon has three parts. While I don't intend to preach, my talk does have three parts.

First, I would like to comment on operating results for 1984. I won't repeat information in the annual report but rather give highlights on a geographic basis starting on the west coast and moving east. Pacific region comprising 24 branches in B.C. represents about 11% of internal deposit market share. Notwithstanding B.C.'s less than buoyant resource-based economy, the deposits increased 20%, or just short of $8 million per branch. Chinatown branch sold more Canada Savings Bonds than any other branch in the country and five of the top 20 branches in this campaign were in Pacific region. New business productivity in the trust area is measured by the amount of fee expected in the first year. Pacific first year fiduciary fees set a new record and were 145% of objective.

1984 will be remembered as the year when Alberta real estate values crashed. Against this negative backdrop, some good things did happen in Alberta for Canada Trust and other accomplishments should not be overshadowed. Deposit growth was 15% in the Prairies, up almost $171 million from the previous year-end. Lending volumes were flat, as might be expected and corporate trust revenues were impacted causing total fiduciary fees in the Prairies to decline. One new branch opened in Regina bringing the Prairie network to 32 at year-end.

One advantage of a national company is while one part of the country is experiencing problems, bright spots can usually be found elsewhere. The Ontario regions produced excellent results this year. Southwestern Ontario, which had its loan loss problems a couple of years ago, has recovered as a result of a much improved automotive industry. Good lending opportunities were presented, demand and term growth was excellent at $181 million. One year's experience with JohnnyCash suggests public acceptance, as transaction levels approach the breakeven mark. One new branch was opened in London to round out that cell bringing total outlets in the region to 29.

Midwestern Ontario, another mature region, had good performance with the Win a Home in Florida savings campaign, an outstanding RSP campaign and a new branch opened in Collingwood bringing total branches to 31. JohnnyCash money machines were installed in 21 of 31 branches. Despite less than buoyant conditions in the region, loan growth was $94 million which is approximately three times last year's and fiduciary fee revenue objectives were achieved.

In the Metro Toronto region economic activity was strong. Deposit growth at $418 million was 25% year over year, 33% of total company loan growth occurred in Metro, arrears are in excellent shape and profit was 29% of total regional contribution. Five of the eleven branches opened in 1984 were in the Metro market, all of which are performing very well; Markham and Chinatown set opening campaign volume records. As stated two years ago, Metro has the most potential of any market in Canada and the intention is to fully develop the retail network over the next three years. We expect to open six new branches in Metro in 1985. Trust assets under administration in Metro Toronto amount to $6 billion producing $11 million in fees, being 30% of total fiduciary revenue. Trust new business development was outstanding at $1.3 million in first year fees auguring well for the future.

The Hamilton/Niagara region covers four basic markets, i.e.: the Burlington/Oakville market whose economy is tied strongly to Toronto; the Hamilton area, whose fortunes follow the steel industry; St. Catharines and the Niagara Peninsula, which is highly dependent on the auto industry and tourism and the Simcoe/Delhi area, which is a farming area dependent on tobacco. Deposit growth was strong, mortgage and loan growth improved and delinquency levels were maintained well within company standards. JohnnyCash was launched in December with 20 of the 35 branches participating and initial acceptance by customers was excellent. One branch was added to the network in Hamilton rounding out that cell and adequate representation now exists in the four markets.

The Northern Ontario/Quebec region is centred in Ottawa, but encompasses all of our northern branches plus one branch in Montreal. Ottawa is a very steady market with real estate values continuing firm due to the stable influence of government employment. Ottawa Pretoria branch opened in October

and is off to a fine start. Ottawa is another key market where investment spending for new branches will continue as appropriate sites are acquired — so far one confirmed opening for 1985. The highlight for this region in 1984 was the loan volume production. Residential and commercial mortgage growth as a percentage of portfolio were the highest in the company and in absolute dollars the increase of $150 million was second only to that of Metro — truly outstanding, considering the diverse markets in which these 18 branches operate.

And finally, a few words about the smallest region, Atlantic. At present it comprises two branches, Halifax and Saint John, New Brunswick. Market research studies have been completed and one branch a year hopefully will be added until the network is complete. The acquisition of a site in downtown Halifax upon which region headquarters are being constructed with an expected opening date late '85 or early '86 was recently announced.

In the second part of my talk, I would like to build on some remarks made by Mr. Speake. Innovative marketing plans would be for naught if execution failed. The key to execution is to have a flexible and adaptive organization. Let me illustrate by using 8 to 8 as an example. December's statistics show that 61% of in-branch transactions occurred outside the traditional banking hours of 10 - 3 and 36% occurred after 5 or on Saturday. If 8 to 8 is great, why hasn't more of the competition followed? I don't know for sure, but it certainly was not an easy transition. When 8 to 8 was first introduced, personal trust officers became part-time managers and learned to take a shift in the evening. You might find an accountant from head office being a branch accountant on a Saturday — lending officers had to do more than just lend money, they learned the deposit-taking side of the business. Tellers have to come and go during the day and learn to count cash and do their balancing work all during regular business hours — something like a line change during a hockey game. In the beginning we were flexible — but this was a short term solution. Now, 43% of our employees are hourly rated or part-time — in two of our regions there are more part-time than full-time employees. This work force has special training needs. In-branch training units covering basic product knowledge have been developed. Each unit takes a week to a month to complete depending on time available and last year 3,324 training units were completed.

Are we flexible and can we adapt — you bet we can. What does it all mean — we deliver what the consumer wants — extended hour service.

This leaves me to the last area on which I wish to comment. A special breed of people makes this flexibility and adaptability possible, and it's great to have a team so deep in commitment, energy and enthusiasm in our branch system. To ensure that adequate new talent is being developed, formalized manpower planning systems exist to evaluate our human resources inventory and plan for the orderly succession of key roles.

Looking at pages 19 and 20 of the annual report which details appointments during 1984, you might think we have high turnover. Let me assure you that this is not the case, but rather virtually all appointments reflect rotational moves, made to ensure adequate experience is provided to developing talents. In conclusion, I would just like to say a sincere thank you to all personnel who have contributed to the success of regional operations.

Thank you for your attention.

P. C. Maurice
Executive Vice-President — Finance and Investment Services

My role today is to discuss some aspects of the financial management of your company.

COMPETITIVE MARKET CONDITIONS

In the four years I have been giving this address, I have never reported that financial markets were stable and benign. This year will be no exception. I am here to say that competition is alive and well and living in Canadian financial markets.

The financial world is going through a fascinating transition. The four pillars of the financial structure are indeed breaking down. These are positive, not negative changes because for one thing the consumer is winning every step of the way, and for another, in all such periods, there is high opportunity for success.

Also, it is obvious that domestic financial markets are generally not growing very quickly. So whatever growth one is able to achieve is business that has to be taken away from someone else. When basic structural changes are combined with slow growth markets, the conditions are right for the most vigorous kind of competition. And that is precisely what we have. In each market there is a tremendous fight for market share.

NEED FOR FINANCIAL FITNESS

This is the kind of market which searches out weak sisters and does them severe damage. This is not the kind of market which allows one the luxury of time to set about fixing basic structural weaknesses.

The present circumstance is such that no one is wise enough to predict where it will all end. And even if one had some reasonably good idea, the judgement of timing is critical. The companies which will win in this contest are those who have in place an engine to give them staying power. Just as an athlete preparing for a major contest assesses the level of his physical condition, we have to judge whether our financial fitness is good enough to allow us to prosper in this testing environment.

NET INVESTMENT INCOME

How shall we measure our financial fitness? The answer is we are financially fit if we are in a position to produce through thick and thin a level of earnings which will allow us to stick with and even lead the marketplace as it evolves.

The most important factor in producing an adequate level of earnings is net investment income, the difference between what we earn on our loans and what we pay on our deposits. To be pronounced financially fit, we have to keep producing sufficient net investment income.

How did we do in this area in 1984? Well, net investment income on a taxable equivalent basis rose to a record $284 million, 17.2% higher than in 1983. We can make our net interest income grow by increasing volume and/or by increasing margin. In 1984 volume growth accounted for virtually all the increase in net investment income.

The most common way of describing margin is spread. Spread is the difference between the average rate earned on investments and average rate paid on deposits. For 1984, one of our declared objectives was to increase our average spread significantly over the level we achieved in 1983. In fact, the spread turned out to be 2.25%, just about exactly what it was in 1983. So we did not meet the target for the year as a whole but I can report that we did exceed it in each of the last five months of the year.

One of the main reasons we did not meet the goal was that we sacrificed our spread objective to some degree to improve our net investment income both immediately and in the future. Our main action in this regard was the introduction of the SuperRate account where we dramatically increased the yield to the saver with the intent of increasing our market share. The happy result was that we increased our volume more than enough to compensate for our reduced spread.

You may note as you read your annual report that for 1985 we have replaced the spread objective with one relating to net investment income. This will bring our financial objectives closer to the heart of the matter.

I have spoken at prior meetings about our program of matching assets and liabilities as to interest rate sensitivity. I don't intend to belabour that point here except to say that we have now made our spread relatively immune to interest rate movements.

We now regard matching as preventive medicine to keep us healthy. Preventive medicine must be taken even when you think you don't need it. So we basically followed our strategy of matching even in the relatively benign interest rate environment of 1984. In fact, the environment in 1984 rewarded mismatching. We responded to that situation by remaining in a significantly mismatched condition in our short-term operations throughout the year but always in a controlled fashion within policy limits and with positions we could easily reverse.

RETAIL DEPOSITS

One of the foundations on which financial fitness depends is a stable and low-cost base of deposits. The world of financial intermediaries has only recently come to realize that low-cost retail deposits are an important key to financial health. That has lead to the extreme competition we see in the retail deposit marketplace. We of course have been concentrating on that area for a long time. It is part of our corporate culture. We can truly claim to be uniquely well endowed in this regard since virtually all our deposits are retail deposits.

However, a good deposit base is not sufficient in itself. In the ultra-competitive financial world we are entering and are helping to create, it will not be enough to be an excellent gatherer of retail funds; one must also have superior lending skills.

LENDING FLEXIBILITY

One of the most outstanding features of financial markets in 1984 was the remarkable degree of competition for loans of all types. A requirement for fitness in such a fiercely competitive lending market is a high degree of flexibility. Our aim has been to develop a broad enough range of lending skills to be able to shift our lending focus from time-to-time as market conditions dictate. Over the past few years we have managed to broaden our lending skills considerably. Some of our new endeavours have produced very significant and profitable volumes.

Early in our matching program, we had a large appetite for floating rate loans. Over the last five years, from a standing start, we have booked $3.7 billion in large institutional and primarily floating rate loans to corporations, government agencies and banks. This has now become one of the areas of most intense competition due in no small part to the fact that there are now 58 Schedule B banks in town, all eagerly looking for loans. The heat of the battle shows itself in sharply narrowed spreads.

One of our responses to these reduced corporate loan spreads has been to move into the so-called loan substitutes, primarily term preferred shares. Canada Trust was very active in this market early in the year and was able to take advantage of some handsome spreads that were available on these securities.

Recently, we have entered the area of automobile dealer financing and have developed some $140 billion in such loans. We are continuing to expand this activity geographically.

Through some innovative products and programs which will be described later, we lavished attention on the mortgage market in 1984, with advances reaching a record level of $1¼ billion. Our 1985 objectives include the development of $1¾ billion in retail loans including mortgages. This is a heady target and we have some exciting programs planned.

So we are already demonstrating considerable flexibility and we intend to develop even broader lending skills. We recognize there are no final solutions because any area of better than average spreads attracts attention very quickly.

DISCIPLINE RE-PRICING

As any physical fitness buff will verify, discipline is a necessary part of a fitness program. Our financial strategies involve an interesting pricing discipline somewhat like taking a cold shower every morning. In this business, most initiatives to gain market share involve price-cutting — cleverly done mind you and in ways that will most tantalize the market, but price-cuts nonetheless. Most of our competitors would agree that we use agressive pricing liberally, mainly in our new products but also in our day-to-day policies. We think this is a recognition of the inevitable and he who does it first will gain the major portion of the market share benefits.

A necessary companion to this strategy is a declaration that we will be low-cost producer in the areas in which we choose to operate. It would be foolish indeed to follow a strategy of cutting pricing against competitors who were able to operate at a lower cost. At the present time, at any given spread, we believe we can produce a consistently higher return on equity than can our major competitors. That is a very important statement. If we can supply the services our customers want at lower spreads than our competitors, we are obviously a force to be reckoned with. We are confident that we are up to the task of maintaining that position.

VALUE ADDED

Another aspect of financial fitness in a very competitive and active marketplace is to be able to judge quickly the financial impact of a given course of action. Thanks to our clear strategies for managing our balance sheet and an excellent information system, we are able to make quick decisions in a hectic market. To paraphrase Rudyard Kipling badly, this system allows us to keep our profit perspective when all about us are losing theirs.

All major loans and programs are subjected to a value-added test in this way. It is particularly useful in the analysis of large loans to get a clear picture of the risk-return tradeoff. We are also able to determine when certain lending areas have become non-compensatory and can then shift our attention elsewhere.

Ladies and gentlemen, I began by saying that the current financial scene is in a state of transition. I will finish by saying that we have followed a rigorous financial training program and we believe we are ready to take advantage of the opportunities presented by change.